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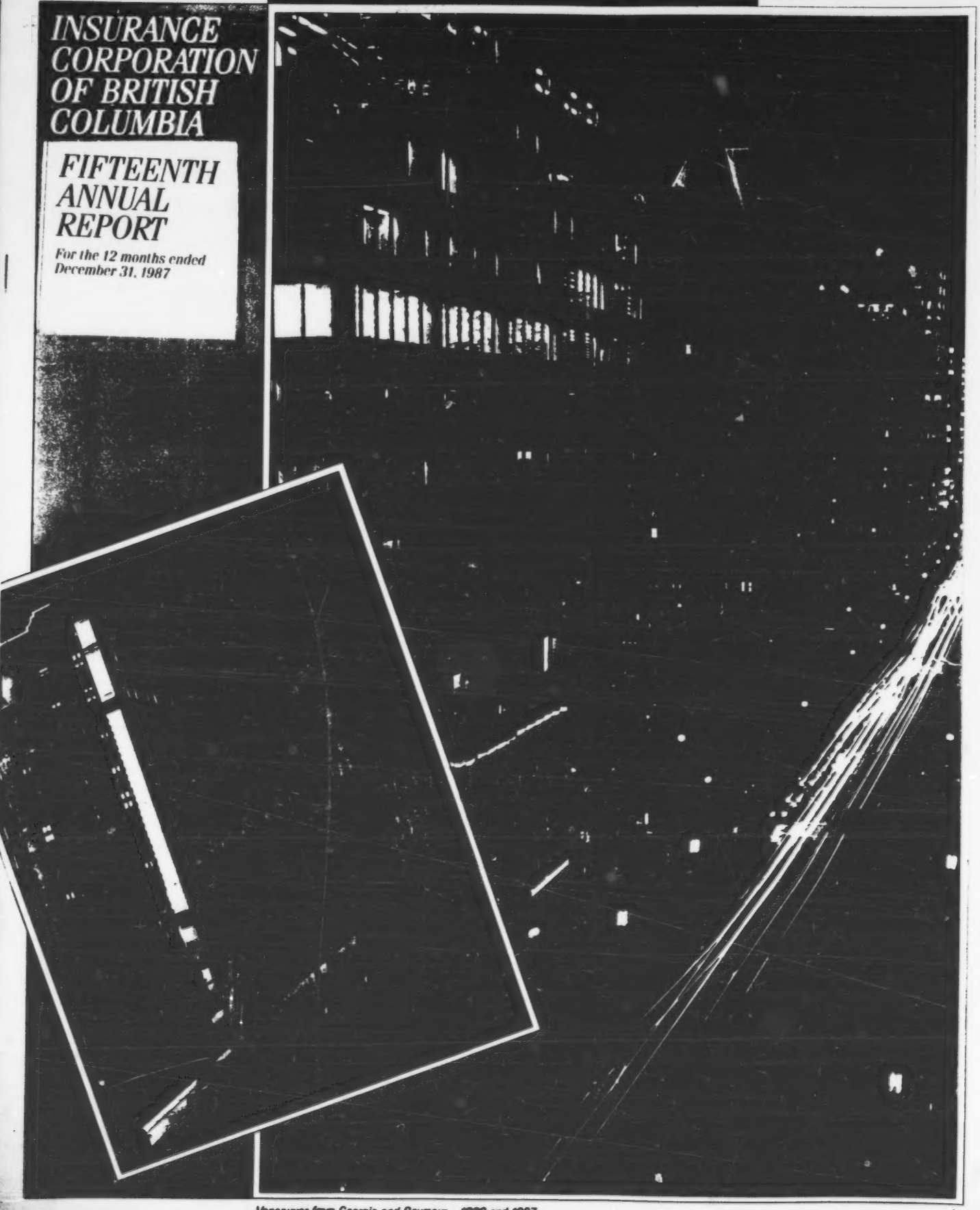
INSURANCE CORPORATION OF BRITISH COLUMBIA

FIFTEENTH ANNUAL REPORT

For the 12 months ended December 31, 1987



Vancouver from Georgia and Seymour—1936 and 1987.

INTERSECTIONS:

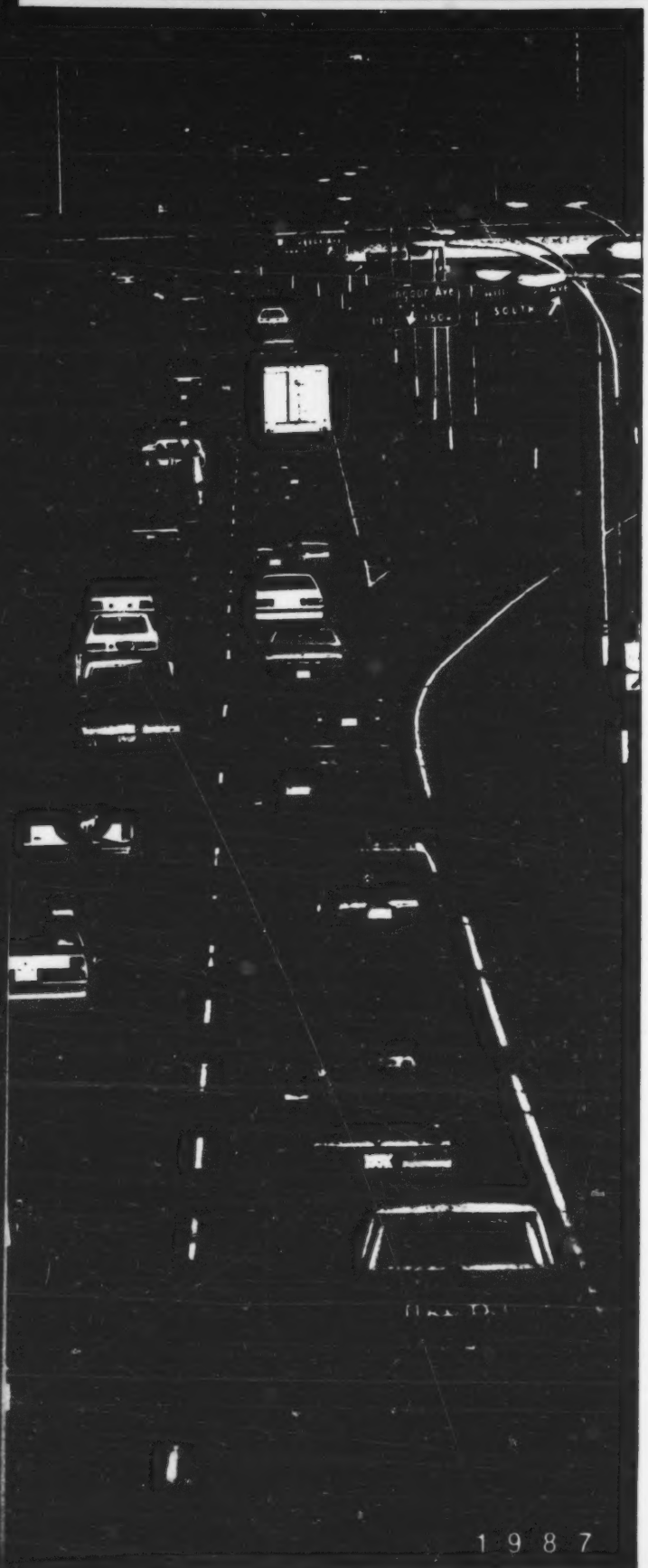
The development of British Columbia can be charted by intersections. Communities grew where roads met and people came together.

Our driving history is also marked by intersections — not just four-way stops and advance greens, but the introduction of traffic controls and the evolution of auto insurance.

At the Insurance Corporation of British Columbia, we intersect with the community in many areas — with educators, police, public health departments, local and provincial governments, the automotive industry, and organizations and individuals throughout society.

In this report we focus on intersections around the province to tell the story of ICBC in 1987. The most dramatic intersection in these pages is a meeting of time — then and now.

Then and now: Grandview Highway, Burnaby, joining the Trans-Canada Highway.



THE YEAR AT A GLANCE

Claims—a record number: 584,000.

— The dollar value of an increased number of claims is the major factor in the Corporation's $58 million operating loss.

Claims Incurred—$851 million, also a record.

Earned Premiums—$822 million.

— The average premium rose by nearly $32 to $394. More motorists purchased collision coverage and many reduced their deductibles. More purchased higher third party coverage, enough that the average protection limit now exceeds $1 million.

Investment Income—$179 million.

— The Autoplan investment fund continued to perform well in a year of turbulent investment markets. The interest yield of 8.6 percent on the portfolio was increased to the reported yield of 10.1 percent by the inclusion of $27 million in amortized gains on sales. The overall yield, including all realized gains, was over 15 percent.

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One of the prime responsibilities of the Board of Directors is to appoint the management of the Corporation and help it fulfill the mission to supply quality, affordable motor vehicle insurance to the motorists of British Columbia, at cost.

Achieving the mission requires that we exercise a discipline which constantly reviews the factors influencing the Corporation's total cost, namely, the numbers and costs of claims reported, the efficiency of service and productivity of staff, and the appropriate management of investments and premium income.

The desired goal is to break even each year. It is necessary that we forecast the cost elements mentioned above, of which the most unpredictable, yet most important, are the number and costs of claims reported. The premium rates for the ensuing year are then set, based on this forecast.

1987 was the year of the unexpected for the Corporation. Seldom have the accident and claims reported rates been so different from the Corporation's plans and analyses for the future, as made in 1986. The unexpected claims volume and its costs are the major contributors to the Corporation's operating loss of $58 million.

Earned premiums were $64 million higher than in 1986. More vehicle owners purchased higher limits of third party coverage, enough that the average protection limit now exceeds $1 million. More motorists purchased collision coverage, with many of them reducing their deductibles. The average premium rose by $32 to $394, though the average rate increase of 4.5 percent would have produced an average premium of about $380.

The sale of increased coverages can lead only to increased claims reported. In 1986, B.C. accidents brought a record 539,000 claims. The Corporation estimated that about 15,000 of those claims came from the extra traffic related to Expo '86 and the associated tourist movement, so the projection for 1987 was somewhat lower at 527,000 claims. The record was broken again, with 584,000 claims reported in 1987. The dollar value of those extra claims, as included in the claims incurred amount of $851 million, contributed to the Corporation's operating loss of $58 million in 1987.

Administrative expenses, which remained at $59 million, show the continuing restraint and control of careful management. On a unit basis, the cost per policy dropped to $27.70, lower than the $29.60 recorded in 1986.

Claims operation expenses increased by nearly $9 million to $79 million, to handle the unprecedented volume of claims. Average claims staff for 1987 was about 156 more than in 1986, to maintain service levels that our customers expect.

The purchase of more coverage and a 2.8 percent increase in policies sold raised the commission cost to over $63 million, up from $57 million in 1986. As a percentage of earned premium, commissions in 1987 were 7.71 percent, compared to 7.49 percent in 1986.

On April 1, 1987, the Corporation was mandated to pay the three percent provincial premium tax, as do other insurers. Until this date the Corporation was exempt from the tax. Though the amount paid was relatively small in 1987, the full impact will be felt in 1988, approximately $30 million.

The Autoplan investment fund continues to perform well. The overall yield, including net realized capital gains and losses, was over 15 percent, in a year of turbulent investment markets.

The Board of Directors pressed management to address the issue of deteriorating driving habits, and, as a result, the Corporation supplemented its regular Traffic Safety Education program with special advertising aimed at raising motorists' awareness of the bad driving habits evident in B.C. The result of this road behaviour pushed the number of claims to the distressing heights we now see.

In 1985, when the Corporation had an unusual profit of $74 million, the Board of Directors designated $60 million of that profit as a Rate Stabilization Fund. The unusual loss in 1987 has been offset from the Rate Stabilization Fund, with a transfer to Unappropriated Surplus of $46 million. This is the purpose of the Rate Stabilization Fund. The 1987 loss is not recovered from the 1988 premium increase.

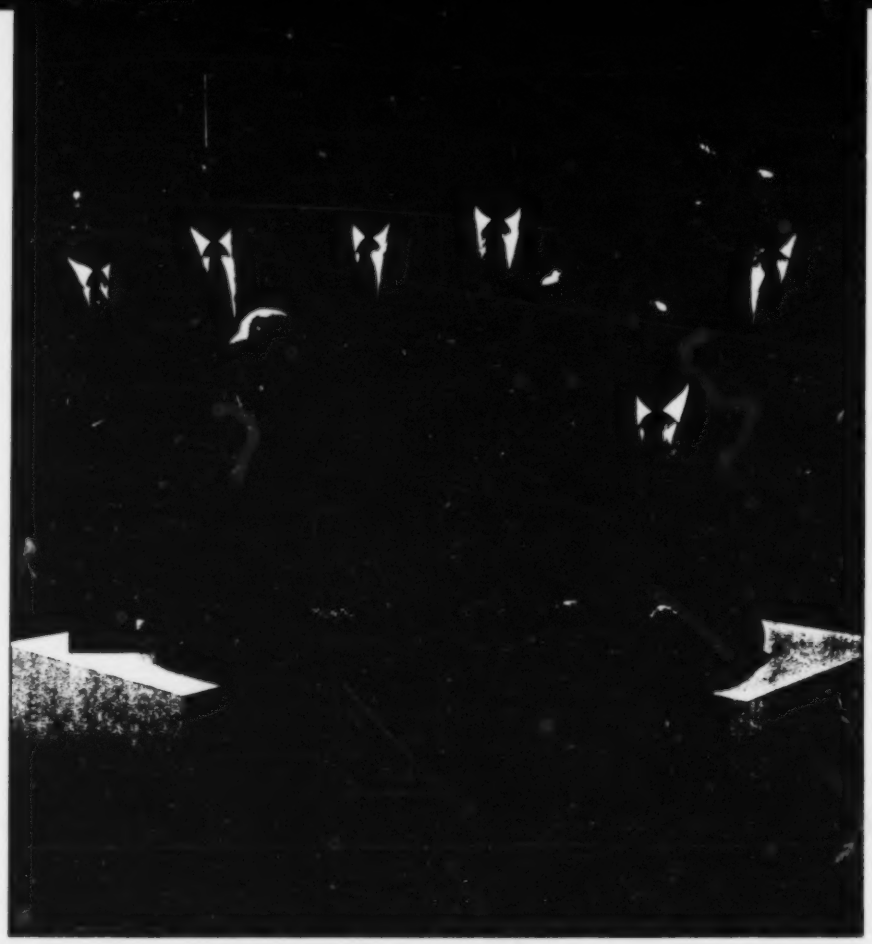
The casualty insurance industry has long been considered a cyclical industry, with fluctuating operating results. The Corporation's results have followed this pattern. For the five years ending December 31, 1987, the Corporation had operating profits of about $30 million, an average of $6 million per year. Total premium income for the same period was about $3.7 billion. This is remarkably close to filling the needs of the motorists of British

Columbia at cost.

The premium rates for 1988 have been set to anticipate the same number of claims incurred as in 1987, in the belief that motoring habits in B.C. will improve, so that this unprecedented and shameful number of 584,000 claims will not be exceeded. The Corporation and its Directors are making every effort to influence an improvement in driving conduct, for if this does not take place, insurance rates will continue to climb.

In a year where volumes of policy and claim transactions both exceeded expectations, the Board expresses its thanks to Corporation staff and management for the way they got the job done with minimum disruption in service and within productivity guidelines.

The Board recognizes that such dedication and diligence will also be needed in 1988.



l. to r. back row: Hon. Lyall F. Hanson, Jack F. Ellett, Lawrence B. Eberhardt, Raymond J. Addington, Donald N. Watson, F. David Radler. front row: Walter H. Dyck, Thomas E. Holmes.

Raymond J. Addington
Chairman of the Board

Thomas E. Holmes
President and Chief Executive Officer

On behalf of the Board of Directors
Insurance Corporation of British Columbia
February 15, 1988

BOARD OF DIRECTORS

Raymond J. Addington*‡
Chairman of the Board
President
Kelly, Douglas and Company Limited

Thomas E. Holmes*
President and Chief Executive Officer

Honourable Lyall F. Hanson*
Minister of Labour and Consumer Services
Province of British Columbia

Walter H. Dyck♦†
Managing Partner
Pannell Kerr MacGillivray
Chartered Accountants
Vancouver, B.C.

Lawrence B. Eberhardt♦†
Formerly Chairman, President and Chief Executive Officer
Neon Products Canada Ltd.
Vancouver, B.C.

Jack F. Ellett
President
Price and Markle Equipment Ltd.
Vernon, B.C.

F. David Radler*♦‡
President
Sterling Newspapers Ltd.
Vancouver, B.C.

Donald N. Watson†
Formerly President and Chief Executive Officer
Canadian Cellulose Ltd. and Pacific Western Airlines
Vancouver, B.C.

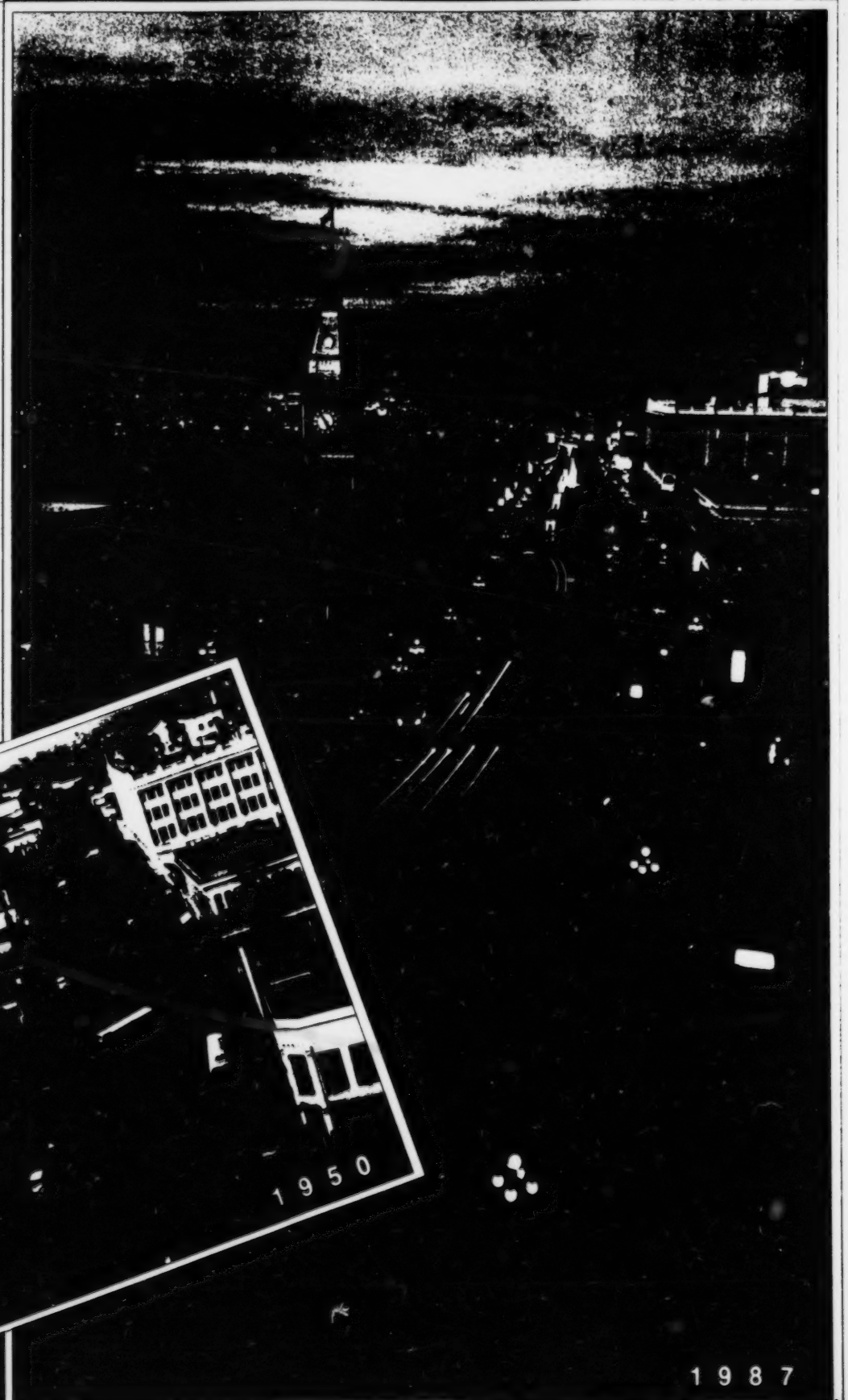
MAJOR COMMITTEES OF THE BOARD

- * Executive Committee
- ♦ Audit Committee
- † Budget Committee
- ‡ Investment Committee

VANCOUVER ISLAND

ICBC maintains claim offices at Campbell River, Courtenay, Duncan, Nanaimo, Port Alberni and Victoria. A force of 162 agents handles Autoplan insurance requirements for 392,000 vehicles on the Island.

Through the year, 164 ICBC employees processed 66,000 claims, up from 60,000 last year. In lieu of taxes, municipalities received grants of $131,800.



Then and now: Victoria from the intersection of Douglas and Pandora

THE AUTO COMES TO B.C.

The first automobile in British Columbia arrived in Vancouver September 24, 1899. It was a Stanley Steamer, the automotive state of the art. It cost its owner $650, plus $350 shipping charges from Massachusetts. The vehicle's debut on Vancouver streets brought awe and fascination. A newspaper reported, "The beautiful horseless carriage answered the steering gear to a hair's breadth as with rubber tires it noiselessly rolled along the asphalt with a motive power entirely hidden from view, like some graceful animal curving its way in and out of traffic..."

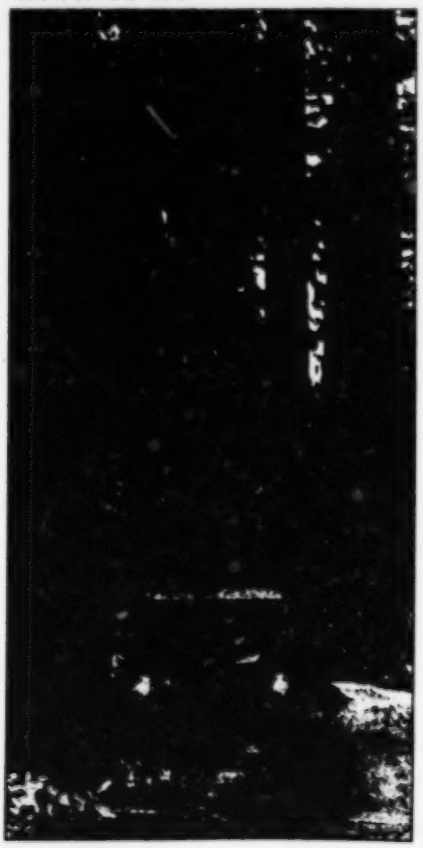
Over the next few years, the horseless carriage began to appear on roads in all regions of the province. Judge W.W. Spinks brought a Locomobile to Vernon in 1902. When he drove it around the County Court circuit, he was trailed by a horse-drawn wagon in case he needed to be towed home. Invariably, he did. That same year, Dr. E.C. Hart drove an Oldsmobile through downtown Victoria and police had to be called to control the crowds. In 1903, Dr. Hart set a local speed record: 4½ miles in 17 minutes.

Popular as the motorized wonder was, it took more than a decade to become established throughout B.C. In 1907, there were only 175 motor vehicle registrations in the province, and it wasn't until the first year of World War I that the automobile became relatively commonplace. The story is told in rich detail in "The Automobile Saga of British Columbia 1864-1914" by G.W. Taylor.

In 1987, nearly 90 years after the arrival of B.C.'s first automobile, the Insurance Corporation issued more than two million policies for British Columbia vehicles. If a Stanley Steamer drove down the streets of Vancouver today, it would still be a crowd-stopper, but for a different reason. Gone are the Toledo, the Hardy, the Stonebo and the Crestmobile. The Insurance Corporation does write policies for antique cars, but it is kept busier adding new models to insurance groups to make sure all vehicles are appropriately rated. Eighteen models were added in 1987, bringing the number to 1237.

Various vehicles at Wharf Street offices of R.P. Rithet, Victoria automobile enthusiast, circa 1910.

A 1920 Studebaker en route to Cowichan Lake.

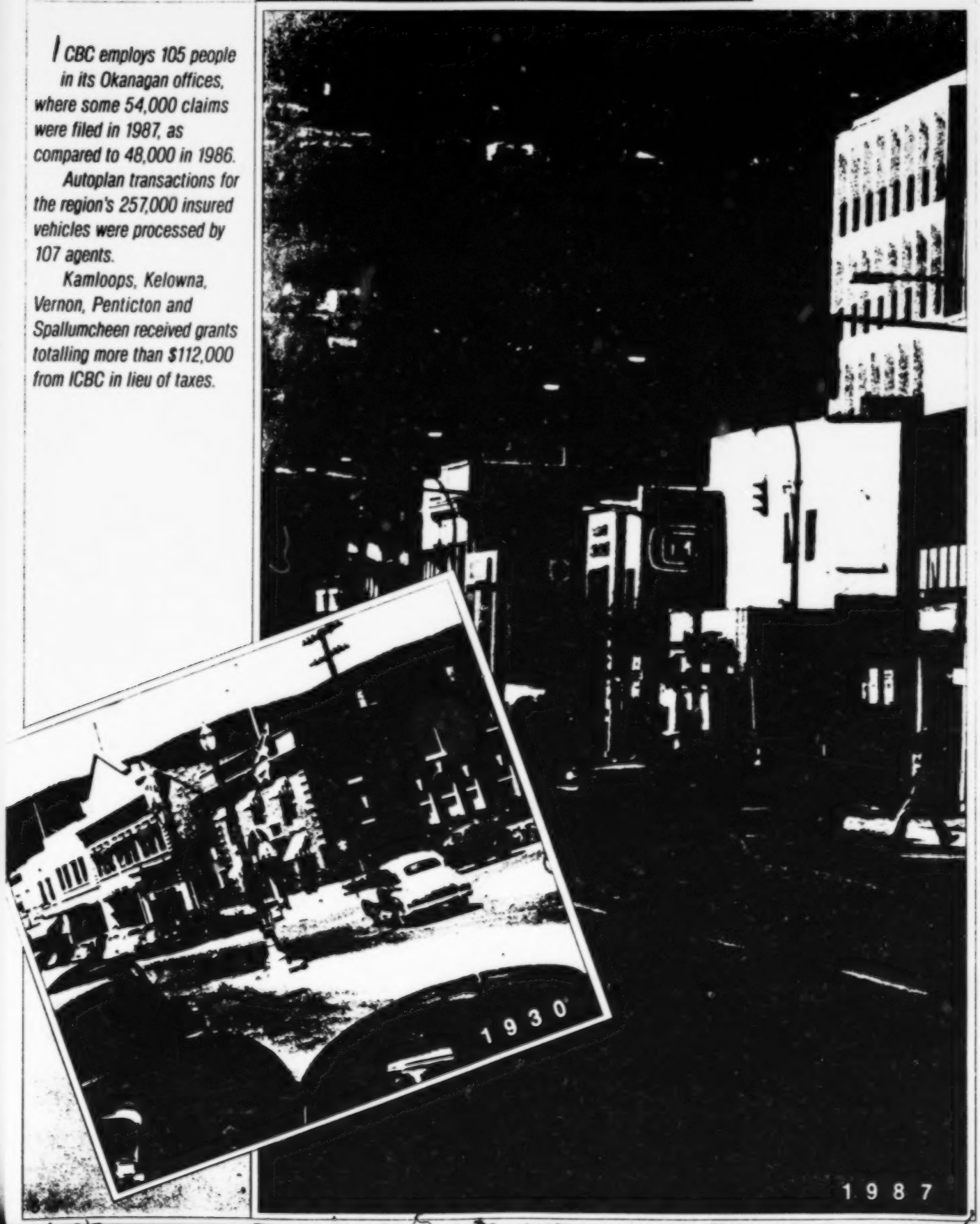


OKANAGAN

ICBC employs 105 people in its Okanagan offices, where some 54,000 claims were filed in 1987, as compared to 48,000 in 1986.

Autoplan transactions for the region's 257,000 insured vehicles were processed by 107 agents.

Kamloops, Kelowna, Vernon, Penticton and Spallumcheen received grants totalling more than $112,000 from ICBC in lieu of taxes.



FROM ENGLAND TO SPENCES BRIDGE

The interior of British Columbia saw its first gas-powered automobile in 1904. Spences Bridge businessman Art Clemes had a red two-seater Wolseley shipped from England. It traveled around the southern tip of South America and up the Pacific Coast to arrive in B.C. fully assembled. Direct shipping across the Atlantic would have been possible only if the car had been dismantled and crated. But in 1904, no one in Spences Bridge knew how to assemble an automobile.

Today, ICBC works with the province's vehicle repair industry to make sure that British Columbians receive the benefits of the latest advances in automotive technology. The ICBC Research and Training Centre, relocated in new premises in Burnaby in 1987, organizes workshops and seminars. It is also a centre for automotive testing and safety research, often in conjunction with educators, police and industry specialists.

In 1905, motor vehicles were still a novelty. The heading "Automobile Livery" appeared in the B.C. Directory for Victoria that year. The next year, under "Automobiles," the Vancouver Directory listed Vancouver Auto and Cycle Company, B.C. Automobile Company and Canada Cycle & Motor Co., along with Western Automobile and Real Estate Co.

There are now more than 1,000 vehicle dealers in British Columbia and more than 1,300 repair shops listed by ICBC. To ensure fair, competent, consistent repair service for claimants, ICBC works closely with such industry groups as the Automotive Retailers Association, the Motor Dealers Association and the Inter-Industry Conference on Automotive Repair (ICAR). ICBC material damage specialists have helped establish district committees of ICAR as channels for research and training in communities throughout the province. The goal: safer vehicles and less costly repairs, leading to greater protection and lower insurance rates.

Signpost in the centre of Kelowna's Bernard Street instructs drivers to keep to the right. It was 1922 when British Columbia drivers moved from the left side of the road to the right.

Barnard Avenue, Vernon's main street, circa 1925.

CARIBOO

At claim centres in Williams Lake, 100 Mile House and Quesnel, 18 ICBC employees processed 13,000 claims in 1987, up from the 1986 total of 12,000 claims.

Sixteen Autoplan agents insured more than 44,000 vehicles.

Then and now: Merritt along Quilchena Avenue

FIRST CAR IN THE CARIBOO

Pack horses, stagecoaches and even camels had traveled the Cariboo Road, but when the first motor vehicle arrived in 1907, few thought it could survive the journey. One oldtimer warned, "Them machines is all right for city pavements, but she'll never make it up them steep pitches." The car was a 1906 Peerless touring model, shipped from New York to Ashcroft by Guggenheim Bros., an international mining company. The Guggenheim party intended to motor from Ashcroft to a gold mine at Bullion. The Peerless made it to Bullion, although it ran out of gas at Lac La Hache and a horseman had to be dispatched to 150 Mile House. In the meantime, the car moved along using cleaning fluid as emergency fuel.

KEEPING TRACK

1904 was the year motorists were required to register their vehicles with the Provincial Police in Victoria. Licence No. 1 went to John Barnsley's one-speed Orient Buck Board. That year 32 motor licences were issued in B.C. Drivers made their own licence plates, with numbers bought from hardware stores. The province didn't start producing licence plates until 1913.

By 1927, there were 945,672 motor vehicles registered in Canada—an average of 10 vehicles for every 100 persons or, roughly, one for every two families. In British Columbia, however, there were 77,617 registrations for an average of 12 vehicles for every 100 residents—a rate of motorization second only to Ontario's.

Sixty years later, with B.C.'s population nearing three million, Motor Vehicle Department statistics show more than two million licenced vehicles in the province. These numerical leaps indicate the growth and prosperity of B.C., but there is a dark side. In 1987, more than 584,000 claims were reported, representing $851 million.

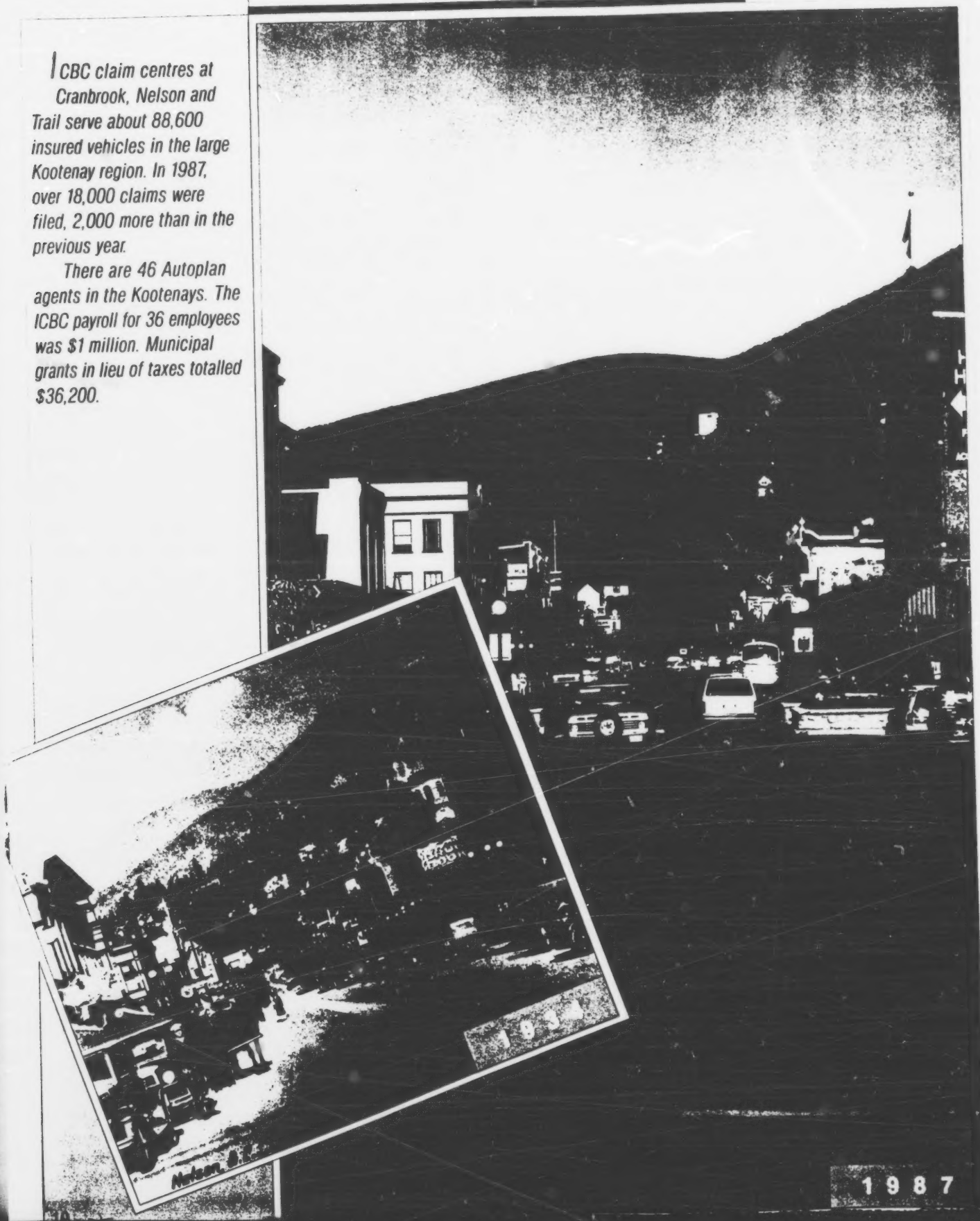
The Insurance Corporation developed a major public information campaign in 1987 to make drivers aware of the alarming incidence of accidents. The ICBC Traffic Safety Education Department continues its innovative community programs and projects for improved road safety in B.C.

Front Street on the Fraser River, the business section of Quesnel, in the 1920s.

KOOTENAYS

ICBC claim centres at Cranbrook, Nelson and Trail serve about 88,600 insured vehicles in the large Kootenay region. In 1987, over 18,000 claims were filed, 2,000 more than in the previous year.

There are 46 Autoplan agents in the Kootenays. The ICBC payroll for 36 employees was $1 million. Municipal grants in lieu of taxes totalled $36,200.



WITH AUTOS COME ACCIDENTS

Penalties in the 1900s were severe. A driver convicted of causing damage to a public highway could be sentenced to three months in jail. In Victoria, a driver could be locked up for a month for driving without a muffler.

Collisions of passenger cars were rare. By 1987, sadly, accidents had become commonplace. Claims incurred totalled $851 million with $484 million for bodily injury claims alone.

Impaired and reckless driving were not always major problems. In 1914, Vancouver had only nine convictions for recklessness, but last year, one-third of all cases heard in Provincial Court involved impaired driving and almost one-third of the prisoners in B.C. jails were there because of impaired driving convictions. Approximately 21 cents of every premium dollar is spent each year repairing damage caused by drinking drivers, while enforcement, court costs, medical services and other expenses related to impaired driving total more than $130 million.

RULES FOR THE ROAD

British Columbia's first Motor Vehicle Act was passed in 1904. It set the speed limit at 15 miles per hour and required owners of vehicles to equip them with bells, gongs, horns and lighted lamps. Drivers were ordered to "exercise every reasonable precaution to prevent frightening of any horse."

Automobiles had no speedometers and radar was decades away, but traffic police even then set traps to catch speeding drivers. Some automobile clubs hired boys on bicycles to patrol the roads and warn motorists.

In 1987, Lower Mainland police began testing the most sophisticated system yet developed for catching speeders. Called Multanova, it uses a camera triggered to operate when a passing vehicle exceeds the speed limit. A photograph is taken of the vehicle, including its licence plate. The registered owner then receives a speeding violation notice in the mail.

CHALLENGE TO CHANGE

Annually, 40 percent of driver fatalities are connected to drinking. But something is being done. ICBC is co-sponsor, with the Ministry of Attorney General, of Drinking/Driving Counter-Attack. Every year CounterAttack helps prevent an average of 850 injuries, saving 30 lives and $10 million. Since the program began in 1977, it's been a "Decade Down a Safer Road."

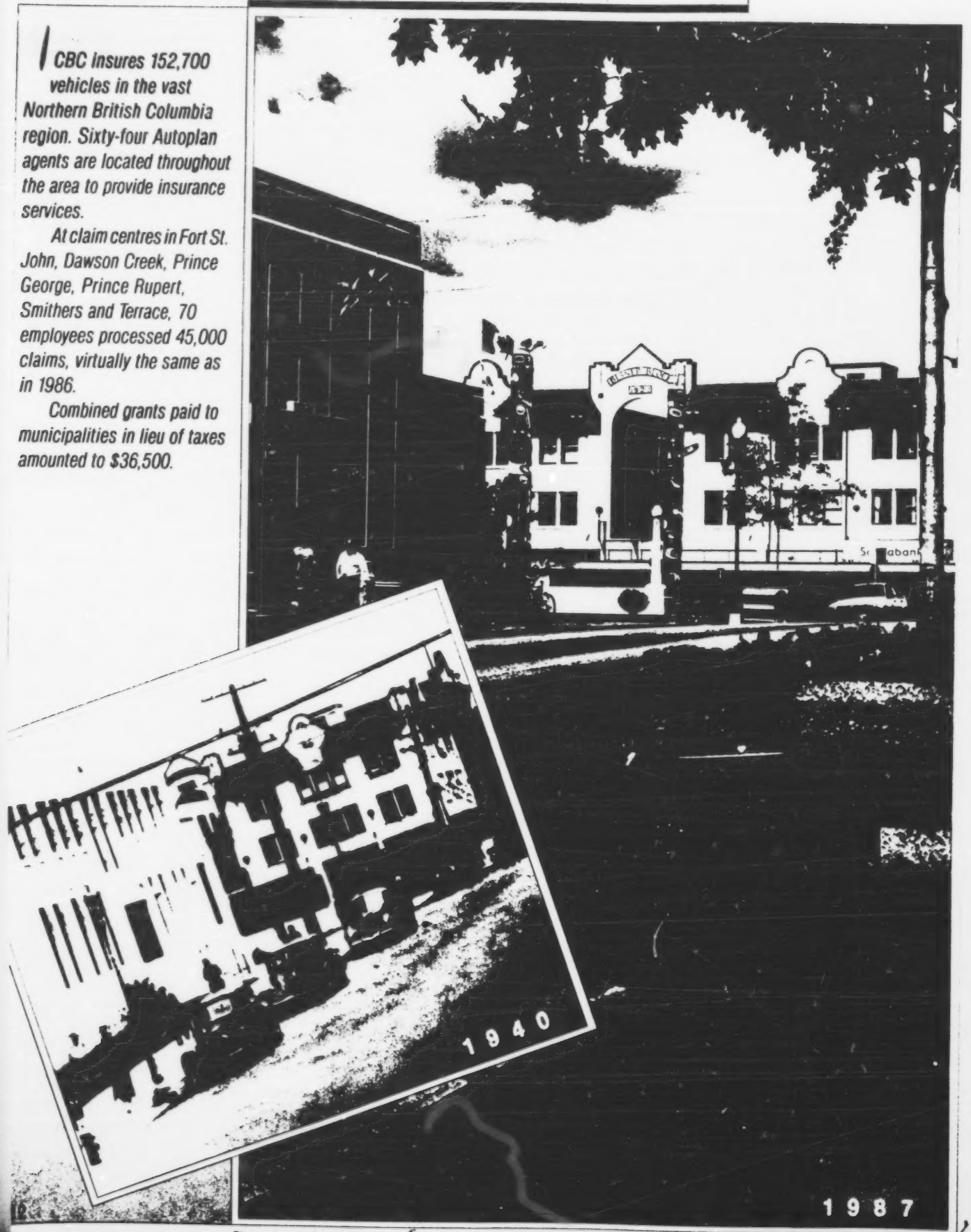
Motorists gathering at a swimming pool in Cranbrook in one of the province's early tourist parks.

A decorated auto at the corner of Cedar and Eldorado in Trail, ready to take its place in the 1927 Jubilee Parade.

ICBC insures 152,700 vehicles in the vast Northern British Columbia region. Sixty-four Autoplan agents are located throughout the area to provide insurance services.

At claim centres in Fort St. John, Dawson Creek, Prince George, Prince Rupert, Smithers and Terrace, 70 employees processed 45,000 claims, virtually the same as in 1986.

Combined grants paid to municipalities in lieu of taxes amounted to $36,500.



Then and now. Prince Rupert at 3rd Avenue West and Fulton

AN INDUSTRY IN INFANCY

Sixty years ago, auto insurance premiums paid all across Canada totalled $10 million. Auto insurance was not then mandatory in British Columbia, but the Automobile Club of B.C. noted in its annual report that "special attention" had been given to the question of compulsory insurance.

In 1932, the province passed an auto insurance law patterned after the Ontario Act. It was designed to protect drivers from third-party claims and to provide compensation for accident victims. That year, the owner of a Ford automobile, living in Vancouver, would pay $20 for public liability and $12 for property damage coverage.

The B.C. Motor Vehicle Act was passed in 1948. It did not make insurance compulsory, but it did require drivers to show a financial capability to cover liabilities. The minimum amounts required: $5,000 for one injured person, $10,000 for two or more injuries and $1,000 for property damage. Drivers could prove their financial responsibility with evidence of cash deposits or securities but insurance coverage became the customary assurance of ability to pay.

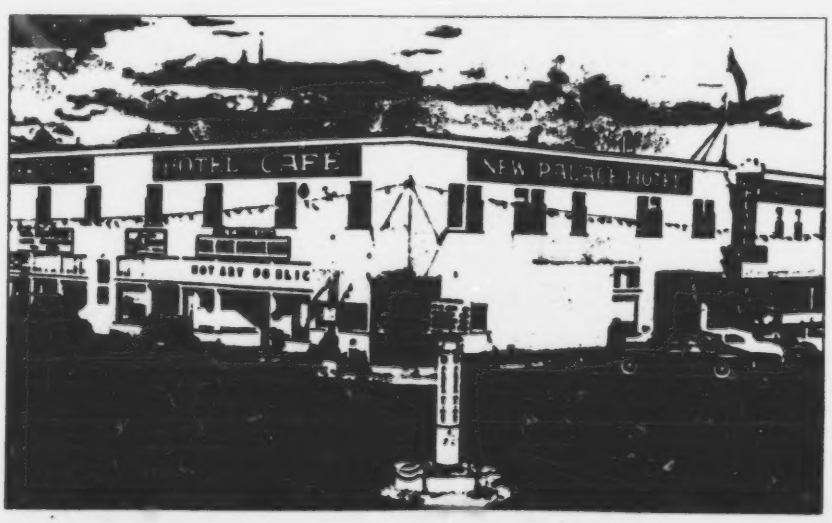
A continuing concern of legislators was provision of adequate compensation for accident victims. In 1960, the government introduced an "impoundment law", which empowered the Superintendent of Motor Vehicles to seize vehicles of uninsured drivers until accident claims were paid. The following year the Traffic Victims Indemnity Fund was established. The fund drew revenue from levies on insurance companies and provided compensation for victims of uninsured motorists and hit-and-run drivers.

As the province moved into the 1960s, there were still many drivers on the road without insurance. In 1965, drivers faced an average rise of 35 percent in premium costs. The resulting controversy led to the preparation of a report to the government by the Superintendent of Insurance. That was followed by a Royal Commission on Automobile Insurance, chaired by the Honorable R.A.B. Wootton.

INSURANCE ARRIVES

The Wootton Commission deliberated for nearly two and a half years, hearing testimony from insurance authorities from across North America. Its report was delivered in July 1968. Among its conclusions: "The sizeable sums presently being spent to provide protection do not represent an effective, much less optimum, use of such monies" and "the greatest burdens are being borne by those most seriously afflicted (and thus) least able to afford their losses."

In response, the government made liability insurance mandatory for all vehicle owners and established the minimum level of compulsory coverage at $50,000. Also introduced were no-fault accident benefits, a mandatory component of every policy sold from that time forward. However, although the plan was called "no-fault", accident victims retained the right to sue for damages in excess of benefits provided. This 1969 package of reforms established the Insurance Board of British Columbia. The Board was given a mandate to review premiums and the government assigned itself the authority to prescribe rates. Four years later, the Insurance Corporation of British Columbia came into being.



Mile 0 on the Alaska Highway: 102nd Ave. and 10th Street, Dawson Creek, circa 1949.

LOWER MAINLAND

Of the more than 365,000 claims processed in the Lower Mainland, most were related to property damage; almost 77,000 involved injuries.

Last year Lower Mainland claims totalled 337,000.

Lower Mainland bodily injury centres, claim centres, salvage operations and head office employed more than 2,000 people in 1987. Autoplan policies were sold to motorists through 463 agencies.

The Insurance Corporation paid Lower Mainland municipalities more than $2 million in grants in lieu of taxes.

1987

OUR PEOPLE TODAY

The Insurance Corporation employed approximately 2,600 people in 1987. Principal divisions of ICBC include Insurance Operations, with 386 employees engaged in marketing, agency services, underwriting and traffic safety.

The Claims Division is the largest, with 1,508 employees. Finance and Planning includes corporate financial control, customer accounts and services, insurance accounting and treasury, and human resources, with combined staff of 277.

Departments of corporate law and litigation, internal audit, and administrative services and facilities employ another 135 men and women.

Information Services, with 244 people, maintain an electronic communications network to customers, agents, government agencies and ICBC employees. Communication with the news media and general public is the responsibility of the 39 members of the Public Information Department.

TURNING TO TECHNOLOGY

ICBC is a leader in the use of computer technology in British Columbia, with corporate departments and insurance agents throughout the province connected to the ICBC computer network.

Nearly half the Autoplan agents in B.C. use computer terminals linked to the ICBC system to submit vehicle insurance data. With a few keystrokes, agents can create and update documents, notify the ICBC marketing department, and print completed forms, all within seconds. Electronic mail and telephone facsimile systems are also used for faster communications between ICBC and agents, government agencies, suppliers and news media.

Dial-A-Claim is a central appointment scheduling system linked to claim centres, scheduling up to 1,500 appointments a day. The newest addition to ICBC computer capabilities is the Autotrak Automotive Evaluation System. Autotrak is an electronic tool for estimators and adjusters, providing precise information on current market values for vehicles which may be designated "total losses." Information on roughly a million vehicles is contained in the Autotrak data bank and this is increased by a car per second every working day.

EXPANDING HORIZONS

British Columbia has come a long way since that "beautiful horseless carriage" dazzled Vancouver in 1899. Nearly ninety years after the Stanley Steamer inaugurated automobile traffic in B.C., ICBC writes insurance policies for over two million vehicles.

A 1906 Victoria by-law directed drivers to "sound two blasts of the horn, whistle, bell or other sound-making contrivance" before turning a corner. Whatever corners there are to turn in 1988, the Insurance Corporation will be there to provide protection for the people of British Columbia.

Canus Cocking was one of the pioneer automobile dealers in Vancouver. These cars in front of his Terminal City Garage in the 800 block West Pender include a Pope Arrow, a Pope Hartford, two Wintons and a 1906 Cadillac. "Dad" Cocking stands by the Hartford, second from left.

INVESTMENTS

Investment income at $179 million contributed about $82 to the cost of insuring each vehicle, about the same as in 1986.

The overall yield on the fund, in investment management terms, exceeded 15 percent, and that performance is in the top 25 percent of the funds with similar portfolio content. Included in that yield is some $117 million in net realized gains on sale of securities.

During 1985, the Corporation introduced an accounting policy which amortizes gains and losses on the sale of securities over the term to maturity of the sold security, or five years, whichever is shorter. This policy ensures a steadier rate of reported returns as replacement securities yield lower returns in the time of realizing gains. The investment income for 1987 includes about $27 million in amortized gains from 1987 and prior years. The year-end 1987 balance of $111 million in unamortized gains will flow into income over the next four years.

During the year, some significant shifts were made in the type and maturity dates of debt securities in the portfolio. These shifts were in response to market conditions. The sale of some $600 million of bonds in February, before interest rates fell, produced the $117 million in capital gains. Until the Fall of the year, the bulk of funds remained in short term investments, maturing in less than a year.

The modest $16 million shortfall between the market value and book value of bonds held at December 31, 1987, had improved to an $18 million excess to book value by January 31, 1988. At year-end, the portfolio was nearly balanced, with 55 percent of its content in longer term investments, mirroring the proportions at the beginning of 1987, though during 1987 bond investments were as low as 25 percent of the total investment fund.

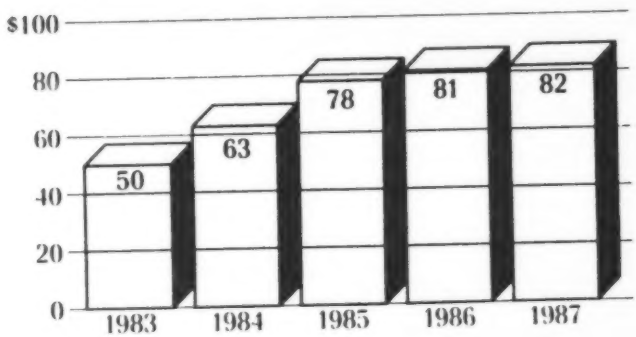
During 1987, the Board of Directors authorized management to make investments in equities, limited to a small proportion of the funds available. At December 31, 1987, the investment fund included about $2 million in equity investments (about one tenth of one percent of the fund).

INVESTMENT PORTFOLIO AS AT DECEMBER 31, 1987

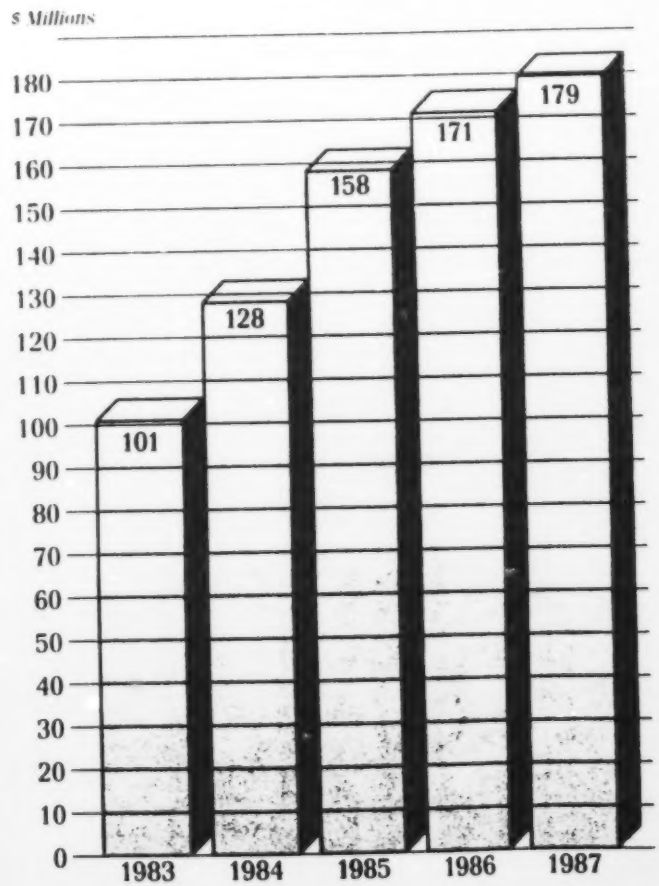
	$ Millions	%
Federal	911.9	51.3
Provincial - British Columbia	229.9	12.9
- Others	73.3	4.1
Municipal - British Columbia	16.1	0.9
Corporate	449.9	25.3
All Others	97.1	5.5
	1,778.2	100.0

INVESTMENT INCOME AND THE POLICYHOLDER

Every investment income dollar the Insurance Corporation earns is a dollar the motorist does not have to pay in Autoplan premiums. The following table illustrates average savings based on policies written in each of the years.



AUTOPLAN INVESTMENT INCOME 1983 - 1987



AUTOPLAN FUND

In 1987, the Insurance (Motor Vehicle) Act Fund suffered its worst recorded loss since 1980, at $58 million.

Even though premiums earned were up $64 million over 1986, the cost of claims rose by $108 million. Expenses to handle the increased volume, together with the newly introduced provincial premium tax, were up $23 million. Even with lower interest rates available in 1987, investment income increased by $8 million.

Nearly 584,000 claims were reported, up more than 44,000 over last year.

A comparison of claims reported, year over year, follows:

Type of Claim	1987	1986	Increase	
	#	#	#	%
Bodily Injury	32,722	29,014	3,708	12.8
Accident Benefits	38,850	35,057	3,793	10.8
Total Injury-Related	71,572	64,071	7,501	11.7
Property Damage	156,623	153,640	2,983	1.9
Collision	130,820	123,985	6,835	5.5
Comprehensive and Other	224,729	197,744	26,985	13.6
Total Physical Damage	512,172	475,369	36,803	7.7
Total	583,744	539,440	44,304	8.2

In addition, the average cost of each claim when finally settled has risen from $1,436 in 1986 to $1,570 in 1987; an increase of $134, or 9.3 percent.

Expenses of the Corporation, including claims operations, rose by $23 million, to a total of $208 million. The entire increase is attributable to three factors:

	Increase	Reason
Claims operation	$9 million	Claims volume
Commissions	$7 million	Premium volume
Premium taxes	$7 million	Imposed in 1987

The number of policies sold increased while administrative expenses were about the same as in 1986, so the administrative cost per policy fell from $29.60 in 1986 to $27.70 in 1987. The cost to handle each claim rose from $129.40 in 1986 to $137.97 in 1987.

Included in the Corporation's administrative expense is the expenditure of $3.5 million for its unique Traffic Safety Education Department programs.

As a percentage of earned premiums, commissions paid to the independent agency force rose from 7.49 percent in 1986 to 7.71 percent in 1987.

The Corporation became subject to the three percent provincial premium tax on April 1, 1987. Since this tax was applicable to only about 55 percent of the Corporation's 1987 business, and is expensed over the terms of the policies to which it applies, we expect a full year's cost to be $30 million.

Autoplan income

	$ Millions	%
Vehicle premiums earned	805.9	80
Driver premiums earned	15.9	2
Investment income	179.2	18
	1,001.0	100

Autoplan income use

	$ Millions	%
Claims incurred	850.5	85
Claims operation expenses	79.0	8
Administrative expenses	58.7	6
Commissions	63.4	6
Premium taxes	7.2	1
Sub-total	1,058.8	106
Loss for the year	(57.8)	(6)
	1,001.0	100

Vehicle premiums written by category

	$ Millions	%
Private passenger	621.2	73
Light commercial	123.8	14
Heavy commercial	66.2	8
Recreational	24.2	3
Special coverage	18.5	2
	853.9	100

Autoplan claims incurred

	$ Millions	%
Bodily injury	483.5	57
Accident benefits	30.5	3
Total injury related claims	514.0	60
Property damage	134.5	16
Collision	110.2	13
Comprehensive and other	91.8	11
Total physical damage claims	336.5	40
	850.5	100

FIVE YEAR COMPARISON

The statistics shown in the chart titled Five Year Comparison give an overview of the operations of the Insurance Corporation of British Columbia since 1983.

The dramatic increase in the cost of claims incurred, and the increase in the number of claims reported, were major contributors to the 1987 operating loss of $58 million.

	Year Ended December 31				
	1987	1986	1985	1984	1983
Policies written	**2,191,000**	2,109,000	2,040,000	2,019,000	2,026,000
Premium income ($000)	**821,790**	757,754	742,372	715,254	695,090
Average premium ($)	**394**	362	371	361	353
Claims reported during year	**584,000**	539,000	482,000	448,000	447,000
Cost of claims incurred ($000)	**850,546**	742,139	653,883	660,353	625,674
Expense ratio (%)	**16**	15	15	15	15
Investment income ($000)	**179,205**	171,241	158,385	128,032	100,616
Investments at year end ($000)	**1,778,216**	1,546,432	1,359,802	1,125,965	871,546
Unpaid claims ($000)	**1,401,976**	1,245,488	1,090,958	951,812	762,057
Total assets ($000)	**1,957,449**	1,702,603	1,529,505	1,289,573	1,064,338
Income (loss) ($000)	**(57,793)**	1,120	73,562	9,564	3,111
Average number of employees	**2,604**	2,415	2,310	2,366	2,592

UNPAID CLAIMS

Unpaid claims includes a provision for reported and unpaid claims and related expenses, based on the claim settlement experience of the Corporation, current trends and a detailed review of claim files. Also included is an estimate for unreported claims.

Year of Loss	**1987**	1986
	($ Millions)	
1983 and prior	**$ 89.1**	$ 192.0
1984	**76.6**	175.1
1985	**178.6**	288.2
1986	**363.6**	590.2
1987	**694.1**	–
Total unpaid claims at December 31	**$1,402.0**	$1,245.5

nsurance (Motor Vehicle) Act Fund Statement of Operations

Year ended December 31, 1987

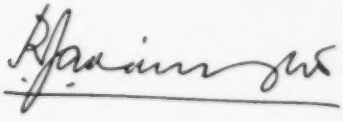
	1987	1986
	($ Thousands)	
Revenue		
Vehicle premiums written	$ 853,909	$ 752,844
Driver premiums written	16,575	15,644
	870,484	768,488
Vehicle premiums earned	805,864	742,123
Driver premiums earned	15,926	15,631
	821,790	757,754
Claims costs		
Claims incurred	850,546	742,139
Claims operation expenses	78,999	70,272
	929,545	812,411
Expenses		
Administrative	58,714	58,693
Commissions	63,332	56,771
Premium taxes	7,197	–
	129,243	115,464
Total claims and expenses	1,058,788	927,875
Underwriting loss	(236,998)	(170,121)
Investment income	179,205	171,241
Income (loss) for the year	(57,793)	1,120
Unappropriated surplus– beginning of year	12,010	10,890
Transfer from: Rate stabilization reserve	46,000	–
Unappropriated surplus–end of year	$ 217	$ 12,010

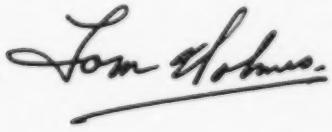
Balance Sheet

As at December 31, 1987

	1987	1986
	($ Thousands)	
Assets		
Cash in hands of agents	$ 7,383	$ 5,098
Investments (Note 3)	1,778,216	1,546,432
Accrued interest receivable	27,156	34,560
Accounts receivable	16,167	12,767
Deferred premium acquisition expenses	36,897	24,817
Property and equipment (Note 4)	91,630	78,929
	$1,957,449	$1,702,603
Liabilities		
Cheques outstanding	$ 8,101	$ 2,106
Accounts payable and accrued charges	24,516	21,418
Premiums and fees in advance	40,577	32,785
Deferred investment gains and losses (Note 5)	111,157	20,585
Unearned premiums	336,905	288,211
Unpaid claims	1,401,976	1,245,488
	1,923,232	1,610,593
Insurance (Motor Vehicle) Act Fund Surplus		
Catastrophe reserve (Note 6)	20,000	20,000
Rate stabilization reserve (Note 6)	14,000	60,000
Unappropriated surplus	217	12,010
	34,217	92,010
	$1,957,449	$1,702,603

Approved by the Board

Director: 

Director: 

Statement of Changes in Financial Position

Year ended December 31, 1987

	1987	1986
	($ Thousands)	
Operating activities		
Cash received from:		
Agents for vehicle premiums, licence fees and social service taxes	**$1,068,538**	$ 953,322
Interest and net gains on investments	**278,023**	185,008
Collections	**51,162**	56,241
Salvage sales	**16,909**	14,840
	1,414,632	1,209,411
Cash paid to:		
Claimants or third parties on behalf of claimants	**732,164**	616,152
Province of British Columbia for licence fees and social service taxes collected	**157,825**	147,039
Suppliers of goods and services	**68,351**	46,136
Employees for salaries and benefits	**93,515**	84,941
Agents for commissions	**65,592**	58,743
Policyholders for premium refunds	**53,533**	50,986
Province of British Columbia for premium taxes	**14,749**	–
All others	**829**	1,466
	$1,186,558	$1,005,463
Increase in cash and investments from operating activities	**228,074**	203,948
Other activities		
Payment of retained earnings from general insurance operations to Province of British Columbia	**–**	8,694
Increase in cash and investments during the year	**228,074**	195,254
Cash and investments–beginning of year	**1,549,424**	1,354,170
Cash and investments–end of year	**$1,777,498**	$1,549,424
Represented by:		
Cash in hands of agents	**7,383**	5,098
Investments	**1,778,216**	1,546,432
Cheques outstanding	**(8,101)**	(2,106)
	$1,777,498	$1,549,424

Notes to Financial Statements

December 31, 1987

1. Status of the Corporation

The Insurance Corporation of British Columbia (the Corporation) is a Crown corporation incorporated under the Insurance Corporation Act, R.S.B.C. Chapter 201. The Corporation operates and administers the Insurance (Motor Vehicle) Act Fund and, as required by legislation, reports the revenues and expenses attributable to the operation of the Insurance (Motor Vehicle) Act Fund separately from other operations of the Corporation, if any. The Corporation also has the power and capacity to act as an insurer and reinsurer in all classes of insurance but is not presently engaged in any such activities.

2. Summary of Significant Accounting Policies

BASIS OF REPORTING

The financial statements of the Corporation are prepared in accordance with generally accepted accounting principles and in accordance with the requirements of the Insurance Corporation Act. The more significant accounting policies adopted are noted below.

INVESTMENTS AND INVESTMENT INCOME

Investments are carried at amortized cost. Premiums or discounts on bond purchases are deferred and amortized over the term to maturity of each bond.

Income on interest-bearing securities is accrued daily. Gains and losses on sales of debt securities are deferred and amortized over the shorter of the term to maturity of the security sold and 60 months.

DEFERRED PREMIUM ACQUISITION EXPENSES

Commissions and premium taxes are expensed over the terms of the insurance policies to which they relate.

DEPRECIATION AND AMORTIZATION

Depreciation is provided on a straight-line basis at rates which will depreciate the original cost over the useful life of each asset. Leasehold improvements are amortized over the term of each lease plus the first renewal period where appropriate.

UNEARNED PREMIUMS

Unearned premiums is that portion of premiums that relates to the unexpired term of each vehicle policy or driver's point penalty premium.

UNPAID CLAIMS

Unpaid claims includes a provision for reported and unpaid claims and related expenses, based on the claim settlement experience of the Corporation, current trends and a detailed review of claim files. Also included is an estimate for unreported claims.

PRIOR YEAR'S FIGURES

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

3. Investments

	Dec. 31, 1987		Dec. 31, 1986	
	Cost	**Market**	Cost	Market
	($ Thousands)			
Short-term deposit receipts, call loans and notes	**$ 790,972**	**$ 790,972**	$ 675,937	$ 675,937
Bonds	**985,290**	**969,878**	870,495	981,927
Equities	**1,954**	**1,747**	–	–
	$1,778,216	**$1,762,597**	$1,546,432	$1,657,864

4. Property and Equipment

	Dec. 31, 1987			Dec. 31,1986
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
	($ Thousands)			
Land	$ 13,846	$ —	$ 13,846	$ 13,772
Buildings	77,356	27,433	49,923	50,587
Furniture and equipment	48,043	20,510	27,533	14,312
Leasehold improvements	963	635	328	258
	$ 140,208	$ 48,578	$ 91,630	$ 78,929

Depreciation has been charged at the following rates: buildings 5 - 10%; furniture and equipment 10 - 33.3%. Depreciation expense for the year ended December 31, 1987 amounted to $11,411,000 (1986 - $9,878,000).

5. Deferred Investment Gains and Losses

	Dec. 31, 1987	Dec. 31, 1986
	($ Thousands)	
Balance deferred—beginning of year	$ 20,585	$ 8,848
Net realized gains during year	117,401	17,862
Amount included in investment income	(26,829)	(6,125)
Balance deferred—end of year	$111,157	$20,585

6. Insurance (Motor Vehicle) Act Fund Surplus

A catastrophe reserve has been established, in accordance with industry practice, to provide financial and reinsurance stability. A rate stabilization reserve has been established to lessen the impact on premiums of significant variations in claims loss experience.

As a result of claims loss experience during the year, the Board of Directors approved the transfer of $46,000,000 from the rate stabilization reserve to maintain a modest unappropriated surplus at December 31, 1987.

7. Reinsurance

The Corporation underwrites policies of insurance and has obtained reinsurance on those policies which protects the Corporation against losses of up to $100,000,000 and limits the Corporation's liability to $5,000,000 in the event of a series of three or more claims arising out of a single occurrence. These reinsurance arrangements do not discharge the Corporation's obligation as primary insurer.

8. Related Party Transactions

The Corporation is the sole provider of compulsory automobile insurance in British Columbia and, therefore, insures vehicles owned or leased by the government of the province and its controlled entities. The Corporation also acts as agent for the Motor Vehicle Department regarding the collection of motor vehicle licence fees and for the Ministry of Finance and Corporate Relations regarding the collection of social service taxes on privately sold used vehicles.

Notes to Financial Statements (Continued)

December 31, 1987

9. Pension Plans

The Corporation maintains two contributory defined benefit best years' average pension plans which cover more than 90 percent of all regular employees. The plans provide pensions based on length of service and best years' average earnings. The plans are, to all intents and purposes, identical and are funded through a single fund—I.C.B.C. Employees' Retirement Trust Fund.

An actuarial report prepared as at December 31, 1987, which was based on projections of employees' compensation levels to the time of retirement, the rate of inflation and the rate of return on the Fund's assets, indicates that the present value of the accrued pension benefits and the net assets available to provide for these benefits, at market value, are as follows:

	1987	1986
	($ Thousands)	
Accrued pension benefits	**$52,718**	$43,625
Retirement Fund assets at market value	**68,044**	61,083

The Corporation's pension contribution of $2,576,000 (1986 - $2,393,000) matches the employee contribution, which have both been established taking into account the amortization of experience and investment gains and losses over the average service life of the employees in the plans.

The unamortized surplus of the Fund is for the benefit of eligible employees and is not recognized in determining the Corporation's operating results.

AUDITORS' REPORT

THE HONOURABLE LYALL F. HANSON
MINISTER OF LABOUR AND CONSUMER SERVICES
PROVINCE OF BRITISH COLUMBIA

We have examined the balance sheet of the Insurance Corporation of British Columbia as at December 31, 1987 and the statements of operations of the Insurance (Motor Vehicle) Act Fund and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1987 and the results of its operation of the Insurance (Motor Vehicle) Act Fund and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

CHARTERED ACCOUNTANTS

Vancouver, British Columbia
February 15, 1988

PRESIDENT'S COMMITTEE

T.E. Holmes
President and
Chief Executive Officer

J.W. Bardua
Vice-President
Claims

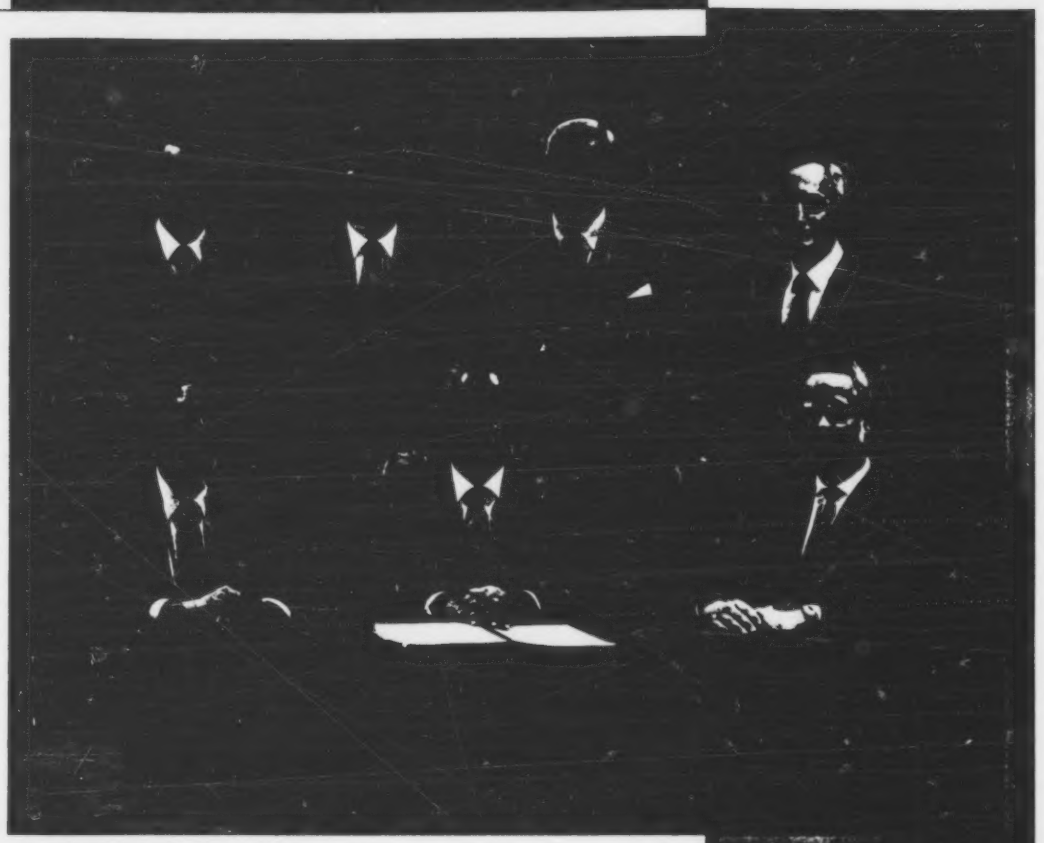
M.B. McCarthy
Vice-President
Insurance Operations

D.J. McLean
Vice-President
Information Services

C.B. Penhall
Manager
Public Information

R.H. Power
Vice-President
Finance and Planning

H.G. Reid
Vice-President
General Counsel and
Secretary



President's Committee: l. to r. back row: J.W. Bardua, C.B. Penhall, R.H. Power, M.B. McCarthy l. to r. front row: D.J. McLean, T.E. Holmes, H.G. Reid.

CLAIM SERVICE LOCATIONS

LOWER MAINLAND
Burnaby, Chilliwack, Coquitlam, East Vancouver, Kingsway (Vancouver), Langley, Maple Ridge, Matsqui, North Vancouver, Powell River, Richmond, South West Marine (Vancouver), Squamish, Surrey, West Broadway (Vancouver)

VANCOUVER ISLAND
Campbell River, Courtenay, Duncan, Nanaimo, Port Alberni, Victoria

NORTHERN B.C.
Dawson Creek, Fort St. John, Prince George, Prince Rupert, Smithers, Terrace

CARIBOO
100 Mile House, Quesnel, Williams Lake

OKANAGAN
Kamloops, Kelowna, Penticton, Salmon Arm, Vernon

KOOTENAYS
Cranbrook, Nelson, Trail

ADMINISTRATIVE OFFICE
151 West Esplanade,
North Vancouver, B.C.
V7M 3H9

AUDITORS
Touche Ross & Co.,
Chartered Accountants
Vancouver, B.C.

BANKER
The Royal Bank of Canada,
Vancouver, B.C.

CREDITS

ICBC is grateful to Mr. G.W. Taylor, author of "The Automobile Saga of British Columbia 1864-1914", for his assistance in the preparation of this annual report. Thanks also to archivists, librarians and others throughout the province who provided photographs and information.

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